

1 THE HONORABLE THOMAS S. ZILLY
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7 UNITED STATES DISTRICT COURT
8 WESTERN DISTRICT OF WASHINGTON AT SEATTLE

9 EXPERIENCE HENDRIX, L.L.C., a
10 Washington Limited Liability Company, and
11 AUTHENTIC HENDRIX, LLC, a Washington
12 Limited Liability Company,

13 Plaintiffs,

14 vs.

15 HENDRIXLICENSING.COM, LTD, dba
16 HENDRIX ARTWORK and
17 HENDRIXARTWORK.COM, a Nevada
18 Corporation, and ANDREW PITICALIS,

19 Defendants.

20 No. C09-0285 TSZ

21 PLAINTIFFS' RESPONSE TO
22 DEFENDANTS' MOTION TO EXCLUDE
23 THE TESTIMONY OF EXPERT RICHARD
YALCH

16 I. RESPONSE SUMMARY

17 In the Court's April 19, 2011 Minute Order, Experience Hendrix L.L.C. and Authentic
18 Hendrix, LLC (hereinafter "Experience Hendrix") were directed to file an offer of proof
19 concerning "what testimony Dr. Yalch is anticipated to provide that is consistent with both his
20 report and the Court's rulings in this case." Experience Hendrix submitted an offer of proof
21 pursuant to the Court's order and consistent with Dr. Yalch's November 9, 2009 report.

22 Defendants now move this Court to exclude all of his testimony because "Professor
23 Yalch's original report was based on the damages to Experience's Jimi Hendrix Brand" as the

PLAINTIFFS' OFFER OF PROOF REGARDING
THE TESTIMONY OF EXPERT RICHARD
YALCH (Cause No. C09-0285 TSZ) - 1

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1 sole source of Jimi Hendrix related merchandise”¹ and because his supplemental report is
 2 untimely and contains new opinions on “the strength and value of Experience’s marks.”²

3 With the exception of Dr. Yalch’s opinions on song titles as a source of unfair
 4 competition, nothing from the Court’s February 8, 2011 Order alters or affects Dr. Yalch’s
 5 original opinions that he expressed in his November 2009 report. Nevertheless, Dr. Yalch
 6 submitted a supplemental report to clarify his original opinions.

7 In fact, Defendants have misled the Court as to the content of Dr. Yalch’s original
 8 report. Defendants have attempted to characterize his report as being based on a belief that
 9 Experience Hendrix claims ownership to Jimi Hendrix’s personality rights. For example
 10 Defendants argue in their motion to exclude that Professor Yalch’s original report was based on
 11 his belief that “Experience’s ‘Jimi Hendrix Brand’ [is] the **sole source** of Jimi Hendrix related
 12 merchandise.”³ That assertion is simply false and misleading. Dr. Yalch does not ever use the
 13 phrase “sole source” in his report—in fact he does not even use the word “sole”—nor does he
 14 infer that Experience Hendrix is the sole source of Jimi Hendrix related merchandise.
 15 Defendants also allege that Dr. Yalch’s original report “was predicated on several incorrect
 16 bases about Experience’s exclusive control of the “Jimi Hendrix Brand.” Again, Dr. Yalch
 17 does not ever refer to “exclusive control” in his report and does not even use the word control.
 18 Instead, Dr. Yalch explains in his report that Defendant’s use of Plaintiffs’ marks has created
 19 confusion as to the source of the Defendant’s goods, and that Defendants’ infringing use of
 20 Experience Hendrix’s signature and headshot logo have damaged Experience Hendrix.

21 Finally, Defendants argue that allowing Dr. Yalch to provide testimony consistent with
 22 his supplemental report violates Rule 26 because he did not timely supplement his report.

23
 21 ¹ Defendants’ Motion to Exclude Professor Yalch at 2.

² Motion to Exclude at 4.

³ This is confirmed by Dr. Yalch in his conclusion, where he explains that “Experience Hendrix and related
 22 companies have successfully established Jimi Hendrix as a brand with a long a profitable future. They have
 23 created this brand by combining their ownership of Jimi Hendrix’s music with trademarks and logos that uniquely
 and distinctly establish a leading position among celebrity brands.”

1 Because he does not offer new opinions in his supplemental report and has instead narrowed the
 2 scope of his opinions, Defendants cannot show any prejudice to allowing him to testify
 3 consistent with Plaintiffs' April 22, 2011 Offer of Proof.

4 **II. RESPONSE ARGUMENT**

5 **A. Dr. Yalch's Original Report Does not Allege that Experience Hendrix is the**
owner of all things Jimi

6 Dr. Yalch explains in his report that branding is achieved through the use of trademarks.
 7 Dr. Yalch's original report focuses on the Experience Hendrix trademarks as forming the basis
 8 for the Jimi Hendrix brand. Defendants wish for "Jimi Hendrix brand" to mean "all things
 9 Jimi" or "Jimi Hendrix's personality rights." But Dr. Yalch clearly explains in his ORIGINAL
 10 report that the Jimi Hendrix brand is conveyed through Experience Hendrix's use of trademarks
 11 to brand music it owns and merchandise it licenses. The "Jimi Hendrix Brand" in Dr. Yalch's
 12 original report is a combination of Jimi's music and branded merchandise featuring Experience
 13 Hendrix's trademarks:

14 Experience Hendrix has successfully transformed Jimi Hendrix from a popular
 15 musician to a distinct and well-recognized brand. They have created this brand
by combining their ownership of Jimi Hendrix's music with branded
merchandise featuring registered trademarks (e.g., Jimi Hendrix, the Jimi
Hendrix Experience, the highly recognizable Jimi Hendrix signature, and the
Authentic Hendrix head shot logo). Their brand management includes
 16 licensing agreements with various entities, the care taken in overseeing how
 17 the Hendrix marks are displayed, and efforts to prevent the associations to
 18 inappropriate products and settings.

19 Dr. Yalch's report then discusses the associations that consumers have with the Hendrix brand,
 20 and how those associations are positive. There is no discussion or assertion by Dr. Yalch that
 21 Experience Hendrix owns all things Jimi, or that Experience Hendrix is the sole source of Jimi
 22 Hendrix related merchandise. To the contrary, Dr. Yalch explains that the quality of products is
 23 maintained by "Experience Hendrix's close supervision of the products and events associated
 with the Jimi Hendrix brand."

1 Defendants incorrectly argue that Dr. Yalch's report focuses on Experience as having
 2 "exclusive control" and stewardship of Jimi Hendrix." This is simply not in his report.

3 Perhaps most significant, Dr. Yalch's opinions about "how Hendrixlicensing's activities
 4 affect the Jimi Hendrix Brand" focus on Defendants' infringing acts as causing confusion and
 5 unfairly benefiting Defendants:

6 By featuring a Jimi Hendrix head shot and signature in its brand identification,
 7 Hendrixlicensing is unfairly benefiting from the goodwill established by
 8 Experience Hendrix. The consequential damages from this behavior are many.
 9 They include creating confusion regarding the origin of all Jimi Hendrix
 10 branded products, providing unfair competition to authentic merchandise,
 11 diluting the Jimi Hendrix brand, tarnishing the Jimi Hendrix brand, and
 12 encouraging others to use Jimi Hendrix trademarks without proper
 13 authorization.

14 Again, "Jimi Hendrix branded products" in this excerpt refers to "branded merchandise
 15 featuring registered trademarks." Dr. Yalch further opines that by selling infringing products
 16 using the Jimi Hendrix signature, Defendants' activities dilute the Jimi Hendrix brand:

17 Seeing the highly distinctive Jimi Hendrix headshot and signature
 18 indiscriminately displayed on many products undermines the importance of
 19 having these marks on an item a consumer has purchased.

20 Dr. Yalch's damage opinions identify the amount of Defendants' royalties that he had
 21 reviewed. He acknowledged that those invoices might not be complete (and in fact, they were
 22 not). He did not provide damage numbers for corrective advertising or for damage to the Jimi
 23 Hendrix brand and trademarks because of the inherent difficulty in assessing such damages. As
 explained below, Defendants' new (April 14, 2011) disclosure of claimed business expenses
 has now allowed Dr. Yalch to opine on the amount of money that Defendants claim to have
 spent on advertising.

**B. Dr. Yalch's Supplemental Report Does not Provide New Opinions and is
 Consistent with His November 3, 2009 Report**

24 Defendants also seek to exclude Dr. Yalch because Dr. Yalch's supplemental report is
 25 untimely. But his supplemental report does not provide new opinions about Defendants'

1 infringing activities, nor has he formed new opinions on how Defendants' infringing activities
 2 have damaged Plaintiffs.

3 Rather, he has clarified and narrowed what he will testify to consistent with the Court's
 4 February 8, 2011 Order. His supplemental report does not discuss unfair competition through
 5 the use of Plaintiff's song titles and does not discuss brand tarnishment. The supplemental
 6 report further clarifies that "Jimi Hendrix brand" means the "Experience Hendrix trademarks."
 7 Dr. Yalch is not an attorney, but is a marketing expert, having spent years analyzing the uses of
 8 trademarks, services marks, logos and other commercial "identities" (aka "brands"). His
 9 inclusion of marketing terms in his first report, to identify the trademarks this Court has ruled
 were infringed, should not disqualify that report or his later clarifications.

10 Dr. Yalch does not offer new opinions in his supplemental report. He instead clarifies
 11 that his original report evaluated Defendants' infringing use of Plaintiffs' marks only and the
 12 damage to Experience Hendrix caused by the infringing use.

12 **C. Dr. Yalch's Testimony is Necessary to Provide Evidence of Experience**
 13 **Hendrix's Damages Resulting from Defendants' Infringing Activities**

14 Dr. Yalch will provide opinions on damages from Defendants' infringing use of
 15 Plaintiffs' marks. He will testify to the amount of royalties and revenues that he has identified
 16 from Defendants' limited disclosures. He will also testify to the amount of money that
 17 Defendants spent on advertising during the infringing period as a measure of corrective
 18 advertising damages. He will also testify to the injury to Experience Hendrix's trademarks and
 19 how the value of Experience Hendrix's marks and related goodwill has been diminished by
 20 Defendants' unauthorized activities and that Plaintiffs have suffered as a result of Defendants'
 21 unauthorized use of their trademarks.

21 **1. Dr. Yalch will Testify to Defendants' Revenues from Infringing Sales**

22 Dr. Yalch will provide testimony on Defendants' sales based on his examination of
 23 records and licensing data obtained through Defendants and third-parties. He will testify to

1 Defendants' gross sales and Experience Hendrix's cost of corrective advertising. This task is
 2 complicated by Defendants' poor record keeping and failure to keep records relating to their
 3 business.

4 For example, Mr. Pitsicalis has no receipts for expenses and is relying solely on
 5 cancelled checks and bank statement summaries from Acropolis Ventures to show deductible
 6 expenses. He has only a few royalty reports. He has no invoices or billing statements from any
 7 vendors. And he has kept very few emails between himself and his licensees. He has admitted
 8 that does not have a document retention policy and stated: "There isn't any standard. As I run
 9 out of storage space I remove files to free up space that at the time of deletion I feel aren't
 necessary to keep."⁴

10 Not surprisingly, much of the information relating to Defendants' product sales have
 11 come from licensees and bank records subpoenaed by Plaintiffs. Accordingly, Dr. Yalch's
 12 testimony on sales is necessary for Experience Hendrix to prove its damages arising from
 13 Defendants' unauthorized use of its marks.

14 **2. Dr. Yalch will Testify to Defendants' Advertising expenditures as a**
Measure of Corrective Advertising Damages

15 On April 12, 2011, Defendants submitted an exhibit to Plaintiffs that purported—for the
 16 first time—to identify Hendrixlicensing.com's expenses.⁵ Notably, the 850 pages of newly
 17 produced bank records are the first attempt by Defendant to produce some evidence of
 18 expenses. Because Defendants have never produced any receipts, invoices or bills, Defendants
 19 have instead taken the 850 pages of bank records obtained by Experience Hendrix through a
 20 subpoena to Bank of America, and added handwritten notations by an unknown person
 21 purporting to identify business expenses incurred by Hendrixlicensing.com. These expenses are

22 ⁴ Answer to Interrogatory No. 5 to Defendants' Response to Plaintiffs' First Interrogatories and Requests for
 23 Production, verified July 10, 2009.

⁵ See Ex. A-3 submitted by Defendants and containing 850 pages of bank rerecords that Experience Hendrix had
 subpoenaed from Defendants' bank accounts in November 2009.

1 not from the hendrixlicensing.com bank account, but from a separate business account issued to
 2 Acropolis Ventures.⁶ This 850 page exhibit is the entirety of Hendrixlicensing's purported
 3 expense-related documentation.

4 Defendants did not identify who marked up the statements, how the person determined
 5 the notations, or whether the notation was based on documents in Defendants' possession. Also
 6 for the first time on April 12, 2011, Defendants identified CPA Cedric Nelson as having created
 7 summaries of profit and loss statements produced in February 2010.

8 Professor Yalch has reviewed these newly produced bank statements and their notations
 9 in an attempt to identify advertising expenses that Defendants allegedly incurred promoting and
 10 selling infringing products and engaging in the infringing website activity. He has prepared a
 11 summary of those alleged expenses and is prepared to provide testimony to those alleged
 12 advertising expenses at trial. Such testimony would assist the jury in calculating Experience
 13 Hendrix's corrective advertising damages.

14 Courts allow injured parties to seek damages based on the prospective cost of corrective
 15 advertising, because compensatory damages for both trademark infringement and breach of
 16 contract are intended to make the injured plaintiff whole. *Adray v. Adry-Mart, Inc.*, 76 F.3d
 17 984, 988 (9th Cir.1996); *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d
 18 1365, 1384 (10th Cir. 1977). In certain circumstances an award equaling the amount necessary
 19 for corrective advertising is recoverable as a remedy where there was harm to the brand. *Zazu*
 20 *Designs v. L'Oreal, S.A.*, 979 F.2d 499, 506 (7th Cir. 1992) ("'Corrective advertising' is a
 21 method of repair. Defendant diminishes the value of plaintiff's trademark, and advertising
 22 restores that mark to its original value."); *Big O*, 561 F.2d at 1374-75; *Adray*, 76 F.3d at 988.
 23 The award may be prospective, that is a reasonable estimation of the future costs of corrective
 advertising when the plaintiff has not yet spent any money on advertising to counteract any

⁶ Acropolis Ventures is a separate Nevada corporation owned by Andrew Pitsicalis.

1 confusion in the industry. *Zazú*, 979 F.2d at 506; *Big O*, 561 F.2d at 1375; *Adry*, 76 F.3d at
 2 988-89.

3 When calculating corrective advertising, Courts can extrapolate potential corrective
 4 advertising costs by taking the total advertising amount spent by defendants on the infringing
 5 activity, and either grant the entire amount or divide by a percentage to make it “fair.” *See, e.g.*,
 6 *Big O Tire Dealers*, 408 F. Supp. 1219 (D. Colo. 1976), modified, 561 F. 2d 1365 (10th Cir.
 7 1977). These damages are available even if the plaintiff can afford to conduct the campaign
 8 prior to trial. *Adry v. Adry-Mart, Inc.*, 68 F.3d 362 (9th Cir. 1995), amended, 76 F.3d 984, 988
 9 (9th Cir. 1996). See also *Cher v. Forum Int'l, Ltd.*, 2134 USPQ 96 (CD Cal.), aff'd in part, 692
 10 F.2d 634 (9th Cir. 1982). The amount of corrective advertising should not exceed the damage to
 11 the value of the mark. The burden of uncertainty of such costs should be borne by the
 12 wrongdoer. *Adry*, 76 F.3d at 988. As the 9th Circuit has explained, the amount of Defendant's
 13 advertising can be a measure of damages even if the Defendant failed to make a profit from the
 14 infringing goods:

15 Finally, Jartran contends that the district court should not have included the \$6
 16 million cost of its advertising campaign as “profits” within the meaning of
 17 Lanham Act § 35 because Jartran did not make a profit during the relevant
 18 period. It is irrelevant that Jartran *as a whole* failed to turn a profit during the
 19 period of the advertising. The amount to be awarded is the financial benefit
 20 Jartran received because of the advertising.

21 *U-Haul Intern., Inc. v. Jartran, Inc.*, 793 F.2d 1034, 1042 (9th Cir. 1986).

22 When, as here, Plaintiffs expend significant amounts on marketing for a variety of goods
 23 including music, it is easier to measure corrective advertising through Defendants' own
 expenditures. Professor Yalch did not identify the amount of Defendants' advertising expenses
 in his November 3, 2009 Report because that information was not available to him. In fact,
 Defendants provided no information on alleged expenses to Plaintiffs until April 14, 2011,

1 when Defendants submitted, for the first time, bank statements⁷ arranged with monthly
 2 summaries and hand-written notes to identify alleged expenses.

3. **Dr. Yalch will testify to Experience Hendrix's injury from
 Defendants' use of its trademarks**

4 Dr. Yalch's opinions on the injury caused by Defendants' unauthorized use of
 5 Experience Hendrix's marks are relevant to Experience Hendrix's WCPA claim even if he
 6 cannot put a specific dollar value on the damage to Experience Hendrix's trademarks.
 7 Defendants have challenged whether Experience Hendrix was injured by their use of
 8 Experience Hendrix's marks.⁸ Because Dr. Yalch's damage opinions relate to both Experience
 9 Hendrix's Lanham Act claims⁹ and Experience Hendrix's Washington Consumer Protection
 10 Act (WCPA) claims, his testimony as to damages or injury flowing from Defendants' infringing
 11 use of Plaintiffs' marks is relevant and will be helpful to the jury.¹⁰ Accordingly, although he
 12 will not place a specific amount on damage or injury to the Experience Hendrix trademarks, his
 13 testimony is still helpful and necessary for establishing elements of Plaintiffs' WCPA and
 Lanham Act claims.

14 **CONCLUSION**

15 Experience Hendrix asks that the Court permit Dr. Yalch to testify consistent with its
 April 22, 2011 Offer of Proof.

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 19 ⁷ Experience Hendrix obtained through subpoenas bank statements for Acropolis Ventures, Hendrix Licensing, and
 20 Mr. Pitscalis' personal accounts in December 2009. These statements did not identify expenses or revenues, as
 the majority of deposits and withdrawals from each of the accounts were cash.

20 ⁸ See, e.g., Defendants' Response to Plaintiffs' Motion for Partial Summary Judgment on Consumer Protection Act
 21 Claims at 9 ("Damages are a necessary element of any CPA claim, as well as proof those damages flowed from the
 Defendants' actions. Here, Experience has failed to meet its burden on damages, and thus failed to show any
 causal link as well.").

22 ⁹ Dr. Yalch's opinions as they relate to the Lanham Act claim concern damages available under the Act, including
 lost sales and corrective advertising.

23 ¹⁰ Dr. Yalch's opinions as they relate to the WCPA concern lost sales and damage to Experience Hendrix's
 goodwill and trademarks.

1 Respectfully submitted this 2nd day of May, 2011.

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CERTIFICATE OF SERVICE

I hereby certify that on May 2, 2011, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the parties below.

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PLAINTIFFS' OFFER OF PROOF REGARDING
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